

CITY OF ELMA

**INDEPENDENT ACCOUNTANT'S REPORT ON THE STATUS OF
PERIODIC EXAMINATION FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

CITY OF ELMA

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City of Elma

Officials

Name	Title	Term Expires
<u>(Before January 2016)</u>		
Jerry Steven	Mayor	January 2016
Gerald Haar	Council Member	January 2018
Alan Johnson	Council Member	January 2018
LuRae Mohrfeld	Council Member	January 2018
Jerry Fitzgerald	Council Member	January 2016
Terry Granahan	Council Member	January 2016
Shannon Gebel	City Clerk	Indefinite
Kevin Schoeberl	City Attorney	Indefinite
<u>(After January 2016)</u>		
Jerry Steven	Mayor	January 2018
Gerald Haar	Council Member	January 2018
Alan Johnson*	Council Member	January 2018
Emily Ptacek	Council Member	January 2018
Dan Drahn	Council Member	January 2018
Terry Granahan	Council Member	January 2020
Shannon Gebel	City Clerk	Indefinite
Kevin Schoeberl	City Attorney	Indefinite

*Alan Johnson resigned effective April 27, 2016.

**INDEPENDENT ACCOUNTANT'S REPORT ON THE STATUS OF PERIODIC
EXAMINATION FINDINGS AND RECOMMENDATIONS**

To the Honorable Mayor
and Members of the City Council:

Gardiner Thomsen P.C. issued a Periodic Examination Report dated September 11, 2014 on the City of Elma, Iowa covering the period July 1, 2013 through June 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 11, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Elma and other parties to whom the City of Elma may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elma during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Gardiner Thomsen, P.C.

Charles City, Iowa

September 14, 2016

**Report on the Status of Periodic Examination
Findings and Recommendation**

CITY OF ELMA

REPORT ON THE STATUS OF THE PERIODIC EXAMINATION FINDINGS AND RECOMMENDATIONS

Findings Reported in the Periodic Examination Report Dated September 11, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparing and distributing.
 - (5) Utilities – billing, collecting, depositing and posting.
 - (6) Financial reporting – preparing and reconciling.
 - (7) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not Corrected. The recommendation is repeated. In addition, see Finding (M).

- (B) City Council Minutes – Chapter 21.4 of the Code of Iowa requires notice of the time, date and place of each meeting to be posted at least twenty four hours prior to the commencement of the meeting. It appears the City posts agendas for meetings, but there is no documentation to verify when they were posted for the public. Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. The publication shall include total expenditures from each fund, a list of all claims allowed (included reason), a summary of all receipts and a list of ordinances or amendments adopted. It appears the City is publishing minutes in a timely manner, but the publication does not include total expenditures from each fund or a summary of all receipts.

It was noted that City Council Minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa for proper posting of notices and City Council minutes. Proper documentation should be maintained to verify these postings.

City Council minutes should be signed to comply with Chapter 380.7 of the Code of Iowa.

Current Status – Not Corrected. For the four meetings testing, there was no documentation to verify when the agenda was posted for the public. Publications for the four meetings did not include total expenditures from each fund or a summary of all receipts. The recommendation is repeated. In addition, see finding (N).

REPORT ON THE STATUS OF THE PERIODIC EXAMINATION FINDINGS AND RECOMMENDATIONS (CONTINUED)

Findings Reported in the Periodic Examination Report Dated September 11, 2014 (Continued)

- (C) Payroll Authorization – It was noted that salaries and hourly wages are not properly authorized by the City Council by Resolution for all City employees.

Recommendation – The City should approve all employee salaries and hourly wages by Resolution.

Current Status – Partially Corrected. For two of the five employees tested, their hourly rate was not indicated in the City Council Minutes. For three employees, their hourly wage was approved by the Library Board. The City Clerk’s hourly wage was approved by City Council. The recommendation is repeated.

- (D) Journal Entries – The City does not maintain supporting documentation for journal entries.

Recommendation – The City should maintain the appropriate documentation to support journal entries made to the City’s financial records.

Current Status – Not corrected. The recommendation is repeated.

- (E) Certified Budget – Disbursements during the year exceeded the amounts budgeted in the public works, culture & recreation and community & economic development functional areas as well as for Business Type activities. Chapter 384.20 states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Current Status – Fully Corrected. Disbursements during the period did not exceed the amounts budgeted. The recommendation is not repeated.

- (F) Transfers Between Funds – It was noted that the amount of transfers between funds during the year was not approved per City Council minutes and exceeded the amounts budgeted for transfers for the year.

Recommendation – The City should approve transfers between funds per City Council minutes or the City’s Certified Budget.

Current Status – The current status could not be determined. There were no transfers noted during the period tested. The recommendation is repeated.

- (G) Financial Condition – The City’s financial statements reflected deficit balances of \$220,555.49, \$3,319.76 and \$712.80 in the City’s Water, Community Center and Museum Funds, respectively, at June 30, 2014.

Recommendation – The City should investigate alternatives to eliminate the deficits in order to return the respective funds to a sound financial position.

Current Status – Not corrected. The City’s financial statements reflected deficit balances of \$240,909.02, \$2,197.91 and \$4,000 in the City’s Water, Community Center and Grants Funds, respectively, at May 31, 2016. The recommendation is repeated.

REPORT ON THE STATUS OF THE PERIODIC EXAMINATION FINDINGS AND RECOMMENDATIONS (CONTINUED)

Findings Reported in the Periodic Examination Report Dated September 11, 2014 (Continued)

- (H) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (I) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (J) Bank Reconciliations – The bank reconciliations are not reviewed by an independent person.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (K) Urban Renewal Report – The annual Urban Renewal Report was not approved and filed with the Department of Management on or before December 1st. The report shows a filing date of December 11th.

Recommendation – The City should file the annual urban renewal report timely.

Current Status – Fully Corrected. The annual Urban Renewal Report for the year ended June 30, 2015 was approved and filed with the Department of Management before December 1st. The report shows a filing date of September 4, 2015. The recommendation is not repeated.

- (L) Prepaid Utility Bills – It was noted that a customer had prepaid a utility bill during the period tested. There was no record of the prepayment documented in the utility billing system.

Recommendation – Adequate records should be kept if the City accepts prepayments of utility bills.

Current Status – Fully corrected. There were no prepaid utility bills noted during testing for the period. The recommendation is not repeated.

REPORT ON THE STATUS OF THE PERIODIC EXAMINATION FINDINGS AND RECOMMENDATIONS (CONTINUED)

Additional Findings as a Result of Follow-Up Procedures:

- (M) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over the duties noted in Finding (A) and over each of the following areas for the City:
- (1) Investments – recordkeeping, compliance and debt payment processing.
 - (2) Debt – recordkeeping, compliance and debt payment processing.
 - (3) Payroll – entering rates into the system
 - (4) Utilities – entering rates into the system
 - (5) Computer System – performing all general accounting functions, controlling all data input and output and having custody of assets.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (N) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Three of four monthly minutes reviewed were not published within fifteen days.

Recommendation – The City should publish City Council minutes within fifteen days to comply with Chapter 372.13(6) of the Code of Iowa.

NEWS RELEASE

FOR RELEASE

Gardiner Thomsen, P.C. today released a Report on the Status of Findings and Recommendations on the City of Elma's Periodic Examination Report dated September 11, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period December 1, 2015 to May 31, 2016.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. Nine of the twelve findings reported in the Periodic Examination Report dated September 11, 2014 are repeated in this report. While the City partially corrected one of the twelve findings, seven of the findings are reported as "not corrected". Three of the twelve findings are reported as fully corrected and the status of one finding could not be determined. Two additional findings were identified during the follow-up procedures are also included in this report. Gardiner Thomsen, P.C. made recommendations including a recommendation that the City review its control procedures to obtain the maximum internal control possible.

A copy of the Report on the Status of Findings and Recommendations from the City of Elma's Periodic Examination Report dated September 11, 2014 is available for review in the City Clerk's Office, in the Office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.